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Notes on the Individual Income Tax Act of 1944

New York Franchise Tax Amendments

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Notes on the Individual Income Tax Act of 1944

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While the Individual Income Tax Act of 1944, enacted on May 29, 1944, was aimed at the simplification of the income taxes on individuals, it effects some changes in the law which may be regarded as complications. Two of these complications are the new "optional standard deduction" and the new concept, "adjusted gross income," which is used for several different purposes. The latter broadly embraces gross income less business deductions, as hereinafter explained in detail.

In general, the new income tax provisions are effective for 1944 and future years, while the new provisions relating to withholding of income tax by employers are applicable only to wages paid on or after January 1, 1945. Some of the changes which relate to declarations of estimated tax apply to 1944, others only to 1945 and future years.

The Income Tax and Returns

NORMAL TAX AND SURTAX ON INDIVIDUALS

The Victory tax of 3 per cent was repealed, and the normal tax rate of 6 per cent was changed to 3 per cent. The surtax rates were increased so as to include the former 6 per cent normal tax. As under prior law the aggregate tax imposed on an individual may not exceed 90 per cent of his net income. The new arrangement has the advantage of eliminating the necessity of computing Victory tax net income, which was different from the base upon which the normal tax and surtax were imposed. These changes are effective for taxable years beginning after December 31, 1943, as are the other changes discussed herein, unless the contrary is noted.

PERSONAL EXEMPTIONS

In lieu of the personal exemptions formerly allowed an individual taxpayer, namely $500 if single and $1,200 if married and living with husband or wife, or if head of a family, the new law allows each taxpayer a normal-tax exemption of $500. If a joint return of husband and wife is filed, the normal-tax exemption is $1,000, except that if the adjusted gross income of one spouse is less than $500, the

exemption is $500 plus the adjusted gross income of such spouse. The "head of a family" classification has been abolished, and no credit for dependents is allowed for normal tax purposes.

For surtax purposes a system of per capita exemptions has been instituted, allowing $500 for the taxpayer, $500 for his spouse and $500 for each dependent. The $500 exemption for the spouse is allowed to the taxpayer only if (a) a joint return is filed or (b) the spouse has no gross income and is not the dependent of another taxpayer.

The determination of whether an individual is married is to be made as of the last day of the taxable year, or, if one spouse dies during the year, as of the date of death. No proration of exemptions, either personal or for dependents, is required where the status changes during the year, but proration will be made in the case of a jeopardy assessment involving a fractional part of a year.

For both normal tax and surtax purposes the exemption allowed to an estate is $500 and the exemption allowed to a trust is $100. A nonresident alien who is not a resident of Canada or Mexico is allowed an exemption of only $500 for both normal tax and surtax.

Surtax Exemptions for Dependents

The definition of a dependent has been revised to eliminate the former requirement that a dependent must be under 18 years of age or physically or mentally incapable of self-support. However, an exemption is allowed only for a dependent whose taxable gross income is less than $500, and, if the dependent is married, only if the dependent has not made a joint return for the year.

Under the new law a dependent is defined as any person over half of whose support for the year was received from the taxpayer and who is related to the taxpayer within one of the following relationships: child, descendant of a child; stepchild; brother or sister, half brother or half sister, stepbrother or stepsister; father or mother or an ancestor of either; stepfather or stepmother; niece or nephew; uncle or aunt; son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law. The relationship of cousin is not included in the definition. For the purposes of determining whether any of the foregoing relationships exist a legally adopted child is considered as a child by blood. A citizen or subject of a foreign country may not be included as a dependent unless he is a resident of the United States, Canada or Mexico.

A payment of alimony, by a husband or former husband or by a trust, which is includible in the wife's taxable income is not to be considered as a payment by the

husband for the support of any dependent.

Services of Children

Under prior law the compensation received for the services of a minor child was held to be taxable to the parent, if under State law the parent was entitled to the services and earnings of the child. The new tax law provides that such compensation, whether or not received by the child, is taxable to the child, and not to the parent. The child is also given the right to any deductions allowable in connection with the income, whether paid by the parent or the child. If the child is unable to make a return, it is contemplated that the parent, who is made responsible for the tax, will make and file a return on his behalf. The parent receives no exemption for a dependent child if the child's gross income is $500 or more.

Returns in General

The new law requires that for 1944 and subsequent years every individual with gross income of $500 or more for the taxable year must make a return. This new rule supersedes the complicated rules found in the prior law relating to single persons and married persons living with husband or wife. As heretofore a husband and wife may make a joint return. Under the new law this may be done even though one of the spouses has neither gross income nor deductions, and even though the husband and wife were not living together. The status as husband and wife is determined as of the last day of the taxable year. No joint return may be filed if either spouse is a nonresident alien or if the spouses have different taxable years.

It appears to be advantageous to make a joint return if one spouse has net income of less than $500, as there is a full surtax exemption of $500 for the husband and $500 for the wife. When separate returns are filed the $500 surtax exemptions of husband and wife must be taken separately in their respective returns, and on this point the new law differs from the prior law, under which the $1,200 exemption for a married couple could be taken by either spouse or divided between them in any way they saw fit. It will apparently be advantageous for husband and wife to file separate returns when each has net income in excess of surtax exemptions (the personal exemption and exemptions for dependents), as this procedure will tend to keep income out of the higher brackets of the graduated surtax.

Returns of Taxpayers with Adjusted Gross Income of Less Than $5,000

For any taxable year a taxpayer with adjusted gross income of less than $5,000 may make an irrevocable election to file a short form re-

turn (Form 1040A) and pay the tax shown by a table which is contained in the law and is to be printed on the return form. Under prior law the use of the short form and table was allowed only if the taxpayer's gross income was less than $3,000 and was derived from certain sources. Thus the new provision broadens the use of the optional short form. In the new table the amount of tax is found under a column heading showing the number of surtax exemptions of the taxpayer, which arrangement made it possible to construct a simple one-page table.

For example, a man with two dependents who files a separate return has three surtax exemptions, and will find the amount of his tax in column 3. If he files a joint return with his wife there are four surtax exemptions, and the tax is derived from column 4, but as the amount shown in the table does not allow for the normal-tax exemption of the wife, a simple adjustment must be made. Such tax must be reduced by 3 per cent of the wife's adjusted gross income, but not more than $15 (3 per cent of $500).

In the computation of the tax shown by the table there is allowed the new "optional standard deduction" of 10 per cent of adjusted gross income in lieu of (a) statutory deductions other than those allowable in the computation of adjusted gross income, (b) the credit for foreign taxes, (c) the credit for tax paid at the source on tax-free covenant bond interest, and (d) the credit for interest on partially exempt government obligations. The terms "adjusted gross income" and "optional standard deduction" are defined and discussed later herein.

The optional short form and tax table may not be used by a nonresident alien individual, by an estate or trust, by an individual making a return for a period of less than twelve months on account of a change in his accounting period, or by husband or wife living together if the net income of either is determined without regard to the standard deduction.

A taxpayer with adjusted gross income of less than $5,000 should use the long form of return (Form 1040) in lieu of the short form if his nonbusiness deductions exceed the "optional standard deduction", or if such deductions and the credits allowed would reduce his tax below the amount shown by the table.

Tax Computed by Collector for Wage Earners

One of the principal features of the new law is a provision designed to relieve some 30,000,000 wage earners of the necessity of computing their tax. It is contemplated that a wage earner will be allowed to file as his return the withholding tax receipt received by him, which will show the amount of wages received and the amount of income tax withheld by the employer. The

tax will be computed by the Collector of Internal Revenue by means of the optional tax table and the Collector will send the taxpayer a bill for any additional tax due or will refund any excessive tax collected through withholding.

To be eligible to file this simplified form of return, the taxpayer must meet all of the following requirements:

(a) He must be eligible to use the short form return, i.e., his adjusted gross income must be less than $5,000;

(b) His gross income must be less than $5,000 and must be entirely from one or more of the following sources: (1) remuneration for services performed by him as an employee, (2) dividends and (3) interest; and

(c) His gross income from sources other than wages which are subject to income tax withholding must not exceed $100.

A wage earner who elects to file the simplified form of return will be required to answer certain questions on the reverse side thereof, listing his dependents and his other income not shown on the withholding receipt, which may not exceed $100.

Treasury regulations are to be issued for the administration of this provision and may provide rules relating to cases where gross income includes items other than compensation for services, dividends and interest, to cases where the gross income of the taxpayer is $5,000 or more but not more than $5,200, and to cases where gross income from sources other than wages on which the tax has been withheld is more than $100 but not more than $200. Under the law the regulations must provide rules relating to joint returns of husband and wife, must determine whether one spouse may elect to file a simplified return if the other does not, and must determine whether and to what extent simplified returns may be used by persons required to make or making payments of estimated tax for 1944.

Returns of Taxpayers with Adjusted Gross Income of $5,000 or More

A taxpayer with adjusted gross income of $5,000 or more is not allowed to use either the short form of tax return, upon which he computes the tax himself by means of the tax table, or the simplified form of return upon which the tax is to be computed by the Collector. He must use the long form (Form 1040) regardless of the sources of his income. He may, however, elect to use an "optional standard deduction" of $500 as a deduction from adjusted gross income, in lieu of certain nonbusiness deductions and certain credits to which he would otherwise be entitled.

Adjusted Gross Income

The term "adjusted gross income," which is used throughout the new law, means gross income less certain deductions specified by the law. No new deductions are created, but existing deductions are,

in effect, divided into two classes, the first class being deductible from gross income in determining adjusted gross income, and the second class being deductible from adjusted gross income to determine net income. This division into classes is important because adjusted gross income is used as the base of the tax for those taxpayers whose tax is determined under the tax table (short form and simplified return taxpayers), and the deductions allowed for determining adjusted gross income are allowed whether or not the taxpayer elects to use the optional standard deduction. Thus the determination as to which of the taxpayer's deductions are allowable for the determination of adjusted gross income will often be necessary to enable him to decide whether or not to elect to use the standard deduction. Adjusted gross income is also used for certain other purposes hereinafter noted.

The deductions allowed for the determination of adjusted gross income are the following:

1. Deductions attributable to a trade or business carried on by the taxpayer not consisting of services performed as an employee;
2. If paid or incurred by an employee in connection with the performance by him of services as an employee:
   (a) Expenses of travel, meals and lodging while away from home, and
   (b) Other expenses under a reimbursement or expense allowance arrangement with the employer;
3. Deductions which are attributable to property held for the production of rents or royalties;
4. Depreciation and depletion allowed to a life tenant of property or to an income beneficiary of property held in trust; and
5. Losses from the sale or exchange of property.

Much of the interpretation of the foregoing provision must await the promulgation of Treasury regulations, but some of its effects can be noted at this time.

The Committee reports state that the term "attributable" is to be taken in its restricted sense, and that the connection contemplated by the statute is a direct one rather than a remote one. Thus, property taxes paid on business property will be deductible for the purpose of computing adjusted gross income, but state income taxes on business profits will not. The usual expenses and losses directly incurred in carrying on a trade or business will be so deductible.

An employee is not considered to be engaged in a trade or business for the purpose of the "adjusted gross income" computation. For that purpose he is allowed to deduct traveling expenses and other expenses for which he is reimbursed, but not other types of expenses, such as union dues or the cost of tools, uniforms, equipment and special clothing, which otherwise come within the scope of allowable tax deductions. The Committee reports state that an employee who

is reimbursed for expenses, or receives a separate per diem allowance therefor, would include the reimbursement or allowance in his gross income.

In order to avoid the question as to whether the receipt of rents or royalties constitutes a trade or business, deductions attributable to property held for the production of rents or royalties are specifically allowed for adjusted gross income purposes. Such deductions should include taxes, interest, depreciation and depletion. Depreciation and depletion are also deductible in computing the adjusted gross income of a life tenant or trust beneficiary.

Losses from the sale or exchange of property are allowed, but in the case of a net capital loss the deduction is limited to the lesser of $1,000 or the net income (adjusted gross income if the optional tax table is used). A net capital loss is to be computed in the same manner as under prior law, that is, long-term capital gains and losses are taken into account to the extent of 50 per cent, and the capital loss carry-over to five succeeding years is allowed. Other losses treated as capital losses, e.g., losses from worthless stock, rights or bonds, and losses from nonbusiness bad debts may be deducted, subject to the capital loss limitations.

Items which under no circumstances appear to be deductible in the computation of adjusted gross income include charitable contributions, interest and taxes on a personal residence or cooperative apartment, alimony payments, amortization of bond premiums, medical and dental expenses, the special deduction for the blind, and the optional standard deduction.

Limitation of Certain Deductions Based Upon Adjusted Gross Income

Under the new law, the deduction for charitable contributions is limited to 15 per cent of adjusted gross income, rather than 15 per cent of net income. This change permits a greater deduction, as adjusted gross income ordinarily will be larger than net income. Medical and dental expenses may now be deducted in the amount by which they exceed 5 per cent of adjusted gross income, rather than 5 per cent of net income as under the prior law, so that this deduction will be less than heretofore. The medical expense deduction is now limited to $1,250 if only one surtax exemption is allowed to the taxpayer, and to $2,500 if more than one surtax exemption is allowed.

Neither of these deductions is allowable as such for any purpose if the taxpayer elects to use the optional standard deduction or the optional tax table.

The Optional Standard Deduction

The standard deduction is $500 for a taxpayer with adjusted gross

income of $5,000 or more, and the taxpayer may elect to take this deduction in his return on Form 1040. Such election is irrevocable for the particular year for which made. If the adjusted gross income shown by the return is $5,000 or more, but the correct amount is less than $5,000, the election to take the standard deduction constitutes an election to have the tax computed by the optional tax table.

A taxpayer with less than $5,000 of adjusted gross income may elect to take the standard deduction (which in his case is 10 per cent of the adjusted gross income) only by electing to have his tax computed by the optional tax table. If the adjusted gross income shown by the taxpayer's short form return (or by his simplified return for wage earners) is less than $5,000, but the correct amount is $5,000 or more, the taxpayer's election to use the tax table constitutes an election to use a standard deduction of $500.

In the case of husband and wife living together the standard deduction will not be allowed to either if the net income of one spouse is determined without regard to the standard deduction. Thus, if a husband living with his wife files a separate return on the long form (Form 1040) and itemizes all deductions claimed, instead of taking the standard deduction, his wife must do likewise if she is required to file a return. She may not file on the short form return (Form 1040A) or the simplified return, both of which require the use of the tax table. The question whether an individual is married and living with husband or wife is determined as of the last day of the taxable year, unless one spouse dies during the year, in which case the date of death governs.

Estates, trusts, common trust funds, partnerships and nonresident aliens are denied the use of the optional standard deduction. Such deduction is not allowed in the case of a taxable year of less than twelve months on account of a change in the accounting period.

The standard deduction, if elected by the taxpayer, is taken in lieu of all other deductions except those allowed for the determination of adjusted gross income, and in lieu of the credit for foreign taxes, the credit for tax withheld at the source on tax-free covenant bonds, and the credit for partially exempt interest on certain government obligations.

Example of Tax Computations

In connection with the preparation of returns under the new law the questions whether to elect to take the standard deduction and whether to file a joint return should be considered together. In borderline cases the decisions on these points will require computation of the tax several different ways. The example on the following page illustrates the point.

	Separate Returns				Joint Returns	
	Without Standard Deduction		With Standard Deduction		Without Standard Deduction	With Standard Deduction
	Husband	Wife	Husband	Wife		
Gross income	$7,000	$3,400	$7,000	$3,400	$10,400	$10,400
Less, Deductions allowable for adjusted gross income	800	400	800	400	1,200	1,200
Adjusted gross income	6,200	3,000	6,200	$3,000†	9,200	9,200
Less, Nonbusiness deductions (actual or standard)	600	None	500*		600	500*
Net income	5,600	3,000	5,700		8,600	8,700
Less, Normal tax exemption	500	500	500		1,000	1,000
	5,100	2,500	5,200		7,600	7,700
Less, Credit for partially exempt interest	None	200	—		200	—
Balance subject to normal tax at 3%	$5,100	$2,300	$5,200		$7,400	$7,700
Net income, as above	$5,600	$3,000	$5,700		$8,600	$8,700
Less, Surtax exemptions (husband has 2 dependents)	1,500	500	1,500		2,000	2,000
Balance subject to surtax	$4,100	$2,500	$4,200		$6,600	$6,700
Normal tax at 3%	$ 153	$ 69	$ 156		$ 222	$ 231
Surtax per surtax table	866	510	892		1,540	1,570
	1,019	579	1,048		1,762	1,801
Less, Credits for foreign taxes and tax-free covenant bond interest	10	None	—		10	—
Total taxes	$1,009	$579	$1,048	$516†	$1,752	$1,801
Combined taxes of husband and wife	$1,588		$1,564		$1,752	$1,801

*Optional standard deduction.
†Tax computed by optional tax table.*

Under the assumed facts set forth in the example, the combined tax of husband and wife is smallest ($1,564) if they file separate returns and elect to take the standard deduction. Such tax is $24 less than the combined amount computed on separate returns without the standard deduction ($1,588) and is materially less than the tax which would be payable on a joint return whether or not the standard deduction is elected.

Declarations of Estimated Tax

Requirements for Filing Declarations

Congress did not alter the prior law requirements as to those who must file declarations of estimated tax for 1944, but made changes in the new law with respect to such requirements as applicable to 1945 and future years. Under the new provision an individual (other than an estate or trust or a nonresident alien whose wages are not subject to withholding) must file a declaration if for the taxable year:

(a) his wages subject to withholding can reasonably be expected to exceed $5,000 plus $500 for each surtax exemption (except his own), or

(b) his gross income from all other sources can reasonably be expected to exceed $100 and his gross income to be $500 or more.

The Committee reports state that the foregoing new rule is simpler of application and easier of comprehension than the complex rule in the prior law.

Time for Filing Declarations and Payments of Estimated Tax

The requirements for filing declarations of estimated tax are based upon whether certain classes of income "can reasonably be expected" to exceed or equal certain amounts. It is recognized that a reasonable expectation of a particular amount of income may arise at any time during the year, and it would appear that the requirements for filing a declaration and paying the first instalment of estimated tax are met at that time. The new law contains specific provisions as to the dates on which declarations and instalment payments are due, and as to the amounts of the instalments. Assuming that a taxpayer whose taxable year is the calendar year files his declaration on time, the new rules are stated in the following tabulation:

If the Requirements Are Met	The Declaration and First Instalment of Estimated Tax Are Due	Subsequent Instalments Are Due	The Portion of Estimated Tax for Each Instalment Is
Before Mar. 2	Mar. 15	June, Sept. and Jan. 15	One-quarter
After Mar. 1 and before June 2	June 15	Sept. and Jan. 15	One-third
After June 1 and before Sept. 2	Sept. 15	Jan. 15	One-half
After Sept. 1	Jan. 15	—	All

In the case of a fiscal year the equivalent dates are to be used. The application of the foregoing to taxable years of less than twelve months is to be prescribed by regulation.

As the new law was enacted on May 29, 1944, the rules of the prior law were allowed to remain applicable to the first two quarters of the calendar year 1944. In 1944 the first due date for filing a declaration was postponed from March 15 to April 15.

Under prior law the final quarterly date for filing a declaration and for payment of the final instalment was December 15. In order to allow for unexpected income toward the year end, this date was changed to January 15 of the following year. A similar change was made to allow amended declarations to be filed on or before January 15 without penalty. These changes are effective for 1944 as well as for subsequent years.

If a declaration is filed late, all instalments due up to the time of filing must be paid, and the balance of estimated tax is payable in equal instalments on the remaining quarterly dates. Thus, if a declaration was required to be filed on March 15 but is actually filed in the following quarter on or before June 15, one-half the estimated tax must be paid with the declaration, one-quarter on or before September 15, and one-quarter on or before January 15 of the following year. In this case failure to file on time and pay the first quarterly instalment by March 15 may subject the taxpayer to a penalty. Such penalty is imposed unless the failure is shown to be due to reasonable cause and not to willful neglect, and amounts to 5 per cent of the overdue instalment, plus 1 per cent for each month of delinquency (except the first) or fraction thereof, but not more than 10 per cent in the aggregate. Extensions of time may be obtained for filing declarations and paying the estimated tax. In the case of such extension, the instalment payments are the same as in the case of late filing, but the penalty does not apply.

Joint Declaration by Husband and Wife

As under prior law a husband and wife may file a joint declaration of estimated tax, but the new law removes the requirement that the spouses must be living together. If they later elect to file separate returns, the estimated tax paid may be treated as that of either the husband or the wife, or divided between them.

Amendment of Declaration

As heretofore, a taxpayer may file amended declarations but only one in each quarter. Amendments must be filed on or before the quarterly due dates of estimated tax instalments, and under the new law declarations may be amended on or

before January 15 of the following year, including January 15, 1945. When an amendment is made, the remaining instalments, if any, are increased or decreased proportionately to reflect the increase or decrease in the estimated tax occasioned by the amendment.

For example, a taxpayer filed a declaration on March 15 showing estimated tax of $600 and paid the first instalment of $150. On June 15 he files an amended declaration reducing the estimated tax to $300. Each of the three remaining instalments is $50, computed as follows:

Estimated tax (after deducting estimated tax to be withheld by employer) per amended declaration..	$300
Less, payment made on account of prior declaration..............	150
Balance....................	$150
Amount due with amended declaration and on September 15 and January 15 (one-third of balance).	$50

Ordinarily the purpose of increasing estimated tax by filing an amended declaration is to avoid the penalty for an underestimate. This penalty may apply when the estimated tax (increased by tax withheld at source) turns out to be less than 80 per cent of the tax shown by the return. The new law in many cases will increase the tax to be shown by the 1944 return, but taxpayers need not amend their 1944 declarations on this account. For 1944 the comparison will be made by taking 80 per cent of the tax under the new law, or 80 per cent of the tax under the old law, whichever is less.

Return as Declaration or Amendment

By filing his return on or before January 15 of the following year and paying the tax, a taxpayer may avoid the necessity of amending his declaration. Under a new provision the return will be considered as an amendment. Similarly, where a taxpayer is not required to file a declaration until January 15, a return filed on or before that date will be considered as a declaration.

Declarations of Farmers

The new law redefines farmers so as to include individuals whose estimated gross income from farming is two-thirds (rather than 80 per cent) of total estimated gross income. A farmer need not file a declaration of his estimated tax until January 15 of the following year.

Withholding of Income Tax on Wages

The new law changes the amounts of income tax to be withheld from wages by employers and follows the same per capita exemption system used for the tax return computa-

tion. In general, the new withholding provisions are made applicable only to wages paid on or after January 1, 1945, so that for the balance of 1944 employers will continue to use the rates, exemptions and withholding tax tables established by the prior law. Not until 1945 will the withholding tax and the tax shown by returns be computed in the same manner. Even then the two amounts will apparently never be identical, although for incomes consisting entirely of wages taxable only in the first two surtax brackets (20 per cent on the first $2,000 of surtax net income and 22 per cent on the next $2,000) there will be only a slight difference if the optional standard deduction is used in the return.

Percentage Withholding

Employers wishing to compute the amount of tax to be withheld may have to make three separate calculations for each wage payment: (1) the 3 per cent normal tax, (2) surtax in 20 per cent bracket, and (3) surtax in 22 per cent bracket. The optional standard deduction is used in the computation by reducing the tax rates by 10 per cent thereof to 2.7 per cent, 18 per cent and 19.8 per cent, respectively. A table in the new law shows the amount of one withholding exemption applicable to each of the various possible payroll periods and the maximum amount of wages subject to the 18 per cent rate, as follows:

Payroll Period	*Amount of one Withholding Exemption*	*Maximum Amount Subject to 18% Rate*
Weekly..........	$ 11.00	$ 44.00
Biweekly.........	22.00	88.00
Semimonthly.....	23.00	92.00
Monthly.........	46.00	184.00
Quarterly........	139.00	556.00
Semiannual.......	278.00	1,112.00
Annual..........	556.00	2,224.00
Daily or miscellaneous (per day).	1.50	6.00

The computation of the amount to be withheld may be illustrated by an example. In the case of an employee claiming three withholding exemptions and receiving $400 monthly, it is computed as follows:

	Amounts	*Tax*
Wages...............	$400.00	
Less, One withholding exemption.....	46.00	
Balance and tax at 2.7% rate.......	$354.00	$9.56
Wages...............	$400.00	
Less, Three withholding exemptions....	138.00	
	262.00	
Maximum subject to 18% rate and tax..	184.00	33.12
Balance subject to 19.8% rate and tax	$ 78.00	15.44
Total to be withheld...........		$58.12

Withholding Tables

At the election of the employer with respect to any employee, withholding may be made in accordance with tables provided in the new law. As heretofore, a separate table is provided for each type of payroll period and the wage payments are divided into brackets. In the new tables the amount of tax to be withheld is found in the column indicating the number of withholding exemptions claimed by the employee. Under the facts assumed in the foregoing example the amount of withholding is found in the monthly payroll table, opposite the bracket $400 - $420 in column 3, and is $60.20. As the amounts found in the new withholding tables do not vary greatly from the computed amounts it seems likely that nearly all employers will avoid the computations by using the tables.

Withholding Exemptions and Exemption Certificates

Witholding exemptions are claimed by the employee on a signed exemption certificate which must be furnished to the employer on or before the commencement of employment. Every employee receiving wages subject to withholding must file a new exemption certificate on or before December 1, 1944. The exemption certificates furnished under the prior law remain in effect until the end of 1944. If no exemption certificate is in effect, the number of withholding exemptions is zero.

An employee is entitled to claim the following withholding exemptions:

(a) One for himself,

(b) One for his spouse, unless the spouse has in effect a certificate claiming a withholding exemption for herself, and

(c) One for each individual for whom the employee may reasonably be expected to be allowed a surtax exemption for a dependent.

When a reduction occurs in the number of withholding exemptions to which an employee is entitled, he must furnish the employer with a new exemption certificate within ten days. If the number of exemptions increases, the employee may file a new certificate at any time thereafter. The employer need not give effect to the new certificate until a "status determination date" (January 1 or July 1) occurring at least thirty days from the date on which the new certificate was furnished. However, the employer may, at his option, give effect to the new certificate on any wage payment date occurring on or after the date the new certificate was furnished. If an employee reasonably expects a change of status as of the beginning of his next taxable year, he may, under regulations to be promulgated, file a new certificate as to the number of exemptions he claims for the next taxable year. However, such a certificate is not effective to change the

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Important Changes in the New York State Franchise Tax

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Article 9-a of the New York Tax Law has been entirely rewritten. In its new form it imposes a franchise tax on business corporations, which now include investment trusts and holding companies. Holding companies were formerly taxable under Article 9.

No change has been made in the tax on real estate corporations and other special classes of corporations, which continue to be subject to Article 9.

The revision has been carefully designed by a group of State officials and tax practitioners, and should result in a more equitable tax. New methods of apportionment of income and capital have been introduced, some of which have the result of bringing New York into closer uniformity with many other states, and others have the nature of a logical innovation. Another useful change has been accomplished in bringing the privilege period into coincidence with the corporation's fiscal year. To bridge the wide gap between these two periods a transition period has been evolved, in order that the regular annual flow of taxes to the state and annual payments by corporations will not be disturbed in effecting the change.

Some of the more important changes effected by the new Article 9-a are briefly described in this article.

EFFECTIVE DATE

New Article 9-a is applicable only to franchise tax reports required to be filed in 1945 and subsequent years, except that in the case of certain fiscal year corporations formerly classified as holding companies it is also applicable to reports required to be filed in 1944. Otherwise, the old law continues to apply to reports required to be filed in 1944 but the privilege period for doing business covered by such reports has been changed, as described later in this article.

TAX DEPENDS UPON NATURE OF INCOME OR CAPITAL

Under the old law the computation of tax differed depending upon whether the corporation was classified as a business corporation, an investment trust or a holding company. The artificial distinctions have now disappeared. Under the new law the computation of tax is the same, regardless of how the corporation was formerly classified. Different treatment, however, is accorded to each class of income and

capital (business, investment and subsidiary).

Changes in Definition of Entire Net Income

Entire net income, adjusted to reflect the amount allocated within the state, continues to be the principal base for measuring the tax.

Under the new law there is excluded from entire net income 50 per cent of dividends other than from subsidiaries. A subsidiary is a corporation of which more than 50 per cent of the voting stock is owned by the taxpayer.

There is also excluded from entire net income all income, gains and losses from subsidiary capital (defined later in this article). As a corollary to this exclusion, any amount which the Tax Commission finds is directly attributable as a carrying charge or otherwise to subsidiary capital or to subsidiary income may, in its discretion, be disallowed as a deduction in computing entire net income.

The tax imposed by new Article 9-a is deductible in computing entire net income only in the year when paid, regardless of whether the taxpayer reports on the cash or accrual method. Thus the need to use algebra in the computation of entire net income is obviated. The tax paid is expressly made deductible only once so as to preclude the possibility of a double deduction during the transition period, which is discussed later in this article.

Tax Rate Changes

The four-way minimum rate structure, viz.: on entire net income, on capital, on entire net income plus certain salaries, or $25, continues but with one further element, viz.: a tax on subsidiary capital, where applicable, added to each. Subsidiary capital allocated within the state will now be taxed at the rate of one-half mill on each dollar of the first $50,000,000, one-quarter mill of the next $50,000,000 and one-eighth mill of the balance.

The rate of tax applicable to the income of investment trusts was formerly 4½ per cent. It is now the same as for business corporations, viz., 6 per cent for fiscal or calendar years ending not later than April 30, 1946 (4½ per cent thereafter), except that since 50 per cent of dividends included in investment income is excluded from entire net income, the effective rate of tax on such dividends has thus been reduced from 4½ per cent to 3 per cent.

Holding companies were formerly subject to a tax based on capital at the rate of one mill on the net value of their issued capital stock allocated within the state, less certain stock which was taxed at the rate of one-quarter of a mill for each per cent of dividends paid thereon.

Base for One-Mill Tax on Capital

Formerly the one-mill minimum tax on capital was computed on the

value of the issued capital stock allocated within the state. Under the new law it is computed on the total business capital and investment capital allocated within the state, subsidiary capital being taxed at the graduated rates stated under the preceding caption. Business capital and investment capital are defined later in this article.

Formerly the one-mill tax was based upon the value of the issued capital stock, which was deemed to be not less than:

(1) its average market value during the corporation's fiscal or calendar year, or

(2) its face value, or

(3) the corporation's net worth on the last day of its fiscal or calendar year, or

(4) $5 per share.

Such floor underneath the amount to be used as the base for the one-mill tax has been entirely eliminated.

Allocation of Entire Net Income

The taxable portion of the entire net income, i.e., the portion allocated within the state, is determined by multiplying the full amount of the entire net income by a combined allocation percentage computed by:

(1) Determining the amount of business income allocated within the state;

(2) Determining the amount of investment income allocated within the state;

(3) Adding (1) and (2);

(4) Dividing (3) by the total of business and investment income before allocation.

The alternative income-plus-salaries base, which continues unchanged, is also allocated within the state according to the foregoing combined allocation percentage.

Business income means gross income, including capital gains in excess of capital losses but not including income, gains and losses from subsidiary capital and investment capital, less all deductions allowable in computing entire net income which are not taken into account in computing investment income.

Investment income means gross income (including capital gains in excess of capital losses) from investment capital, less, in the discretion of the Tax Commission, any deductions allowable in computing the entire net income (other than capital losses) which are attributable to investment income. The law is ambiguous as to whether the 50 per cent of dividends (other than from subsidiaries), which is excludable in computing entire net income, is also excludable in computing investment income for purposes of arriving at the allocation percentage. It would seem, however, that logically is would be so excludable.

Allocation of Business Income

If the taxpayer does not maintain a regular place of business outside the state, other than a statutory office, all of its business income is allocated within the state. If it

is entitled to allocate its business income within and without the state, the portion allocated within the state is computed by the use of the business allocation percentage, which is determined by:

(1) Ascertaining the percentage which the average value of real and tangible personal property within the state is of the average value of all real and tangible personal property wherever situated;

(2) Ascertaining the percentage which the receipts (on the cash or accrual method, whichever is used in the computation of entire net income) from:

(A) Sales of tangible personal property located within the state at the time of the receipt of or appropriation to the orders,

(B) Sales of any such property not located at the time of the receipt of or appropriation to the orders at any permanent or continuous place of business maintained by the taxpayer without the state, where the orders were received or accepted within the state,

(C) Services performed within the state,

(D) Rentals from property situated, and royalties from the use of patents or copyrights, within the state, and

(E) All other business receipts earned within the state,

are of the total receipts from all business transactions, whether within or without the state. (Apparently, proceeds from sales of real property are excluded from both the numerator and denominator);

(3) Ascertaining the percentage which the total wages, salaries and other personal service compensation (on the cash or accrual method, whichever is used in the computation of entire net income) of employees within the state, except general executive officers, are of the total wages, salaries and other personal service compensation, similarly computed, of all employees within and without the state, except general executive officers;

(4) Dividing the total of the percentages ascertained under (1), (2) and (3) by the number of percentages.

Allocation of Investment Income

All taxpayers are entitled to allocate investment income within and without the state, regardless of whether or not they maintain regular places of business outside the state. The portion of investment income allocated within the state is computed by the use of the investment allocation percentage which is determined by:

(1) Multiplying the average fair market value of its investment in each stock, bond or other security (other than governmental securities and stock and indebtedness of subsidiaries included in subsidiary capital) by the percentage, if any, of the entire capital or the issued capital stock of the issuer or obligor thereof required to be allocated within the state for the preceding year, but without regard to any minimum;

(2) Adding together the amounts so obtained;

(3) Adding thereto the average fair market value of its investment bonds and other securities issued by the state or any subdivision or instrumentality thereof; and

(4) Dividing the result so obtained by the average fair market value of its total investment in stocks, bonds and other securities, including all governmental securities (other than obligations of the United States and its instrumentalities).

If the investment allocation percentage is zero, interest received on bank accounts and on obligations of

the United States and its instrumentalities shall be multiplied by the business allocation percentage.

There is no floor (as is discussed later herein with reference to investment capital) under the amount of investment income to be allocated within the state.

Allocation of Business Capital and Investment Capital

The portion of business capital and the portion of investment capital allocated within the state, for purposes of computing the one-mill tax on total business and investment capital, are determined by multiplying the amounts of the business capital and the investment capital by the business allocation percentage and the investment allocation percentage, respectively. The computation of such percentages has been described in earlier paragraphs. However, the portion of investment capital to be allocated within the state shall be not less than 15 per cent thereof, unless the taxpayer establishes that less than 15 per cent of its investment capital is employed, and less than 15 per cent of its investment activities is conducted, within the state.

Business capital means all assets, other than subsidiary capital and investment capital, less liabilities not deducted from subsidiary capital, which are payable on demand or within one year from the date incurred. Cash on hand and on deposit, other than that which the taxpayer elects to include in subsidiary capital (discussed later herein), may be treated either as business capital or investment capital as the taxpayer may elect.

Investment capital means investments in stocks, bonds and other securities, corporate and governmental, not held for sale to customers in the regular course of business, exclusive of subsidiary capital.

Allocation Percentage Option

A taxpayer that does not file a consolidated return and the investment income of which is less than 25 per cent of its total business and investment income, may elect to apply its business allocation percentage to its entire net income and to its total business and investment capital.

A taxpayer that does not file a consolidated return and the investment income of which is more than 85 per cent of its total business and investment income may elect to apply its investment allocation percentage to its entire net income and to its total business and investment capital.

Equitable Adjustment of Allocation Percentages

The new law gives the Tax Commission discretion to depart from the statutory formulae and make equitable adjustments in the business and investment allocation percentages whenever it finds that they

do not properly reflect the activity, business income or capital of the taxpayer.

It is mandatory upon the Commission to publish any rulings made by it under its discretionary power to adjust the allocation percentages. It will behoove taxpayers to study such published rulings carefully for precedents to support applications for equitable adjustments in their own cases.

Allocation of Subsidiary Capital

The right to allocate subsidiary capital is not conditional upon the maintenance of a regular place of business outside the state. The portion of subsidiary capital allocated within the state, for purposes of computing the tax on subsidiary capital, is determined by:

(1) Multiplying the average fair market value of the investment in the stock and indebtedness (includible in subsidiary capital) of each subsidiary by the percentage, if any, of the entire capital or the issued capital stock of such subsidiary required to be allocated within the state on its return, for the preceding year, but without regard to any minimum;

(2) Multiplying the proportion of cash and obligations of the United States and its instrumentalities which the taxpayer elects to treat as subsidiary capital by the weighted average of the percentages used in (1); and

(3) Adding together the amounts obtained by (1) and (2).

However, the portion of subsidiary capital to be allocated within the state shall be not less than 15 per cent unless the taxpayer establishes that less than 15 per cent of its subsidiary capital is employed, and less than 15 per cent of its activities with respect to its subsidiaries is conducted, within the state. If a taxpayer is not taxed upon the basis of a consolidated report and its subsidiary capital, including any cash and obligations treated as subsidiary capital, is more than 85 per cent of its total capital, the portion of subsidiary capital to be allocated within the state is limited to 50 per cent.

Subsidiary capital is the average fair market value of the investments in the stock of subsidiaries plus any indebtedness from subsidiaries on which interest is not deducted by the subsidiary for purposes of the New York State franchise tax. Liabilities payable on demand or within one year from the date incurred, which are attributable to subsidiary capital, may in the discretion of the Tax Commission be deducted from the amount of subsidiary capital.

If the taxpayer is not taxed upon the basis of a consolidated return and if its subsidiary capital is more than 85 per cent of its total capital, exclusive of cash on hand and on deposit and of obligations of the United States and its instrumentalities, it may elect to treat as subsidiary capital a proportion of such cash and obligations not in excess of the proportion which its subsidi-

ary capital (before the election) is of its total capital.

Making Privilege Period Coincide with Base Period

Corporations Formerly Classified as Business Corporations or Investment Trusts: Under the old law the privilege period for exercising the corporate franchise or doing business within the state was the year commencing November 1, regardless of whether the taxpayer was a fiscal or calendar year corporation, and the base period for measuring the tax was the taxpayer's calendar or fiscal year ending not later than the preceding June 30. Commencing with the calendar year 1945 and with fiscal years beginning on or after December 1, 1944, the base period and the privilege period will coincide so that the privilege period will be the fiscal or calendar year during which the income is earned or the capital is employed.

To effect the transition, the privilege period that will commence on November 1, 1944, and that would otherwise extend to October 31, 1945, is limited to extend only through the subsequent part of the taxpayer's first fiscal or calendar year ending after November 1, 1944. The base period which measures the tax for such transition period comprises each and every fiscal or calendar year (or part thereof) begun not earlier than August 1, 1942, and ending not later than October 31, 1945, during which the taxpayer was exercising its franchise or doing business in the state. As a result, the base period for measuring the tax for the transition period will embrace a total of three fiscal years in the case of corporations having fiscal years ending from July 31 to October 31, and a total of two calendar or fiscal years in the case of all other corporations.

The new law makes no change in the reporting dates for fiscal or calendar years. Nor is any change made in the dates when payments of the tax become due. A corporation will still file only one report and pay only one tax for each year of operation. However, the tax for the transition period will be embraced in more than one annual report. The aggregate of the taxes shown on the reports required to be filed for the two or three fiscal or calendar years comprising the base period will constitute the total tax for the transition period. In the case of fiscal years ending from July 31 to October 31 the aggregate of the taxes shown on the reports required to be filed on May 15, 1944, 1945 and 1946 will constitute the total tax for the transition period. In the case of calendar years and all other fiscal years the aggregate of the taxes shown on the reports required to be filed in 1944 and 1945 will constitute the total tax for the transition period.

Corporations Formerly Classified as Holding Companies: Holding companies were previously taxed

under Article 9 for the privilege of doing business during a calendar year upon the basis of conditions existing during the preceding calendar year. Fiscal years were not recognized for this purpose. Such corporations filed reports on or before March 1, 1944, based upon the calendar year 1943, for the privilege of doing business during the calendate year 1944.

The transition period under the new law, therefore, commences on January 1, 1945. For calendar year corporations it is the calendar year 1945, and for fiscal year corporations it is the fractional period from January 1, 1945 to the end of the fiscal year in which the date falls.

The base period for measuring the tax applicable to the transition period embraces: (1) in the case of calendar year corporations, the calendar years 1944 and 1945, (2) in the case of fiscal year corporations, the period from January 1, 1944 to the end of its first fiscal year ending after January 1, 1944, plus its next succeeding fiscal year. Thereafter the base period for measuring the tax and the privilege period will coincide.

In addition to the report filed on or before March 1, 1944 under the old law, corporations with fiscal years ended January 31 and February 29, 1944 were required under the new law to file a report on May 15, 1944, and those with fiscal years ended March 31 to June 30, 1944 within four months after the close of the fiscal year. Calendar year corporations and corporations with fiscal years ending from July 31 to November 30 are not required to file any report in 1944 other than the report which they were required to file on March 1, 1944 under the old law, their first report under the new law being due on May 15, 1945.

Deductibility of Tax for Transition Period for Federal Tax Purposes

Since the liability for the tax (measured by a base period that may comprise as many as three fiscal years) for the transition period arises within such period by virtue of a change in the substantive law, it is anticipated that the total tax for such period will be held deductible for federal income and excess profits tax purposes in the taxable year in which the transition period falls. The substantive change in the New York law is in contrast to the mere change of the accrual date of the California franchise tax for 1943, in connection with which the U. S. Treasury Department has ruled against the deduction of two franchise taxes in 1943.

For calendar year corporations that were formerly classified as business corporations or investment corporations, the transition period falls in their taxable year ended December 31, 1944. For calendar year corporations that were formerly classified as holding companies,

the transition period falls in their taxable year ended December 31, 1945.

Effect upon Corporate Financial Statements

Under old Article 9-a corporations became liable on November 1 for the entire tax for the year then commenced. Accordingly, it was accepted accounting practice to accrue the full amount of the liability on November 1, and make a contra charge to prepaid taxes. The amount of the tax was then amortized by charging an aliquot part to expense in each of the succeeding twelve months.

The bunching of charges to expense necessitated by the transition period will result in an abnormally large charge for franchise taxes that may require disclosure in financial statements. Thus, the income statement for 1944 of a calendar year corporation that followed such accounting practice will show as a charge to expense in 1944:

(a) ten-twelfths of the tax shown on the report required to be filed on May 15, 1943, plus

(b) the entire amount of the tax shown on the report required to be filed on May 15, 1944 plus

(c) the entire amount of the tax that will be shown on the report required to be filed on May 15, 1945.

In the case of those calendar year corporations which had followed the practice of writing off within the same year the full amount of the tax shown by the report due on May 15, the income statement for 1944 will show as an expense the aggregate of (b) and (c) only.

Special Dissolution and Withdrawal Tax

The old take-over provision, which applied to a corporation which had acquired the major portion of the assets actively employed in the business of another corporation that was dissolved or withdrew from the state, was repealed on March 31, 1944, with respect to acquisitions occurring after that date. Under that provision the successor corporation was liable for the tax on any income or capital of the predecessor corporation which had escaped being used as a measure of the tax by reason of the predecessor's dissolution or withdrawal.

As under the new law the base period and privilege period will coincide, after a short transition period, the take-over provision is no longer necessary. Now every corporation that dissolves or withdraws from the state on or after March 31, 1944, becomes liable for a tax measured by its income or capital, to the extent not theretofore used as a measure for tax. The liability attaches to the corporation that earned the income or employed the capital, rather than to the successor corporation. A report must be filed on the date of dissolution or withdrawal unless an extension of time is obtained. The tax is payable

when the report is required to be filed.

No corporation under the old law could ever be subjected to tax right up to the date of its dissolution or withdrawal, based on its income earned or capital used to that date. There would always be the lag between the base period and the privilege period, which would fail to pass through the tax doorway. Under the new law such a situation will no longer be possible.

Closing Agreements Authorized

Chapter 331, Laws of 1944, which became effective March 29, 1944, authorizes the State Tax Commission to enter into closing agreements with taxpayers with respect to any tax or fee imposed under Articles 9 or 9-a of the New York Tax Law, whether payable before, on or after March 29, 1944. In the absence of fraud, malfeasance or misrepresentation of material fact, such agreement will be binding on the Tax Commission and the taxpayer. Apparently corporations seeking to enter the state to do business therein may now establish beforehand the basic factors that will determine the amount of their franchise tax, such as, how their income will be classified and how their allocation percentage will be computed.

Limitation upon Assessment of Back Taxes upon Foreign Corporations

Under Chapter 414, Laws of 1944, if a foreign corporation files a report which is not false or fraudulent under new Article 9-a when due on or after May 15, 1945, and if the tax computed on the basis of such report is paid when due, no assessment shall be made for back franchise taxes for any period ending more than five years prior to the last day of the period for which such report is filed. The five-year statute of limitations apparently applies even though no prior reports were filed, unless the failure to file was willful with intent to evade tax.

Notes on the Individual Income Tax Act of 1944

(*Continued from page 14*)

amount withheld from wages paid in the calendar year in which it is furnished.

Under the prior law applicable to 1944 an employer was prevented from giving immediate effect to changes in status of employees occurring after July 1, as such changes in status were required to be taken into account only on the following January 1. The new law contains a provision which allows an employer at his election to give immediate effect to such changes in status occurring after July 1, 1944, as well as 1945 and subsequent years.

The L. R. B. & M. Journal

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The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvement; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

The Simplified Tax Law

Already two federal income tax laws have been enacted this year. Both of them made legislative history. The earlier one, the Revenue Act of 1943, because it was the first revenue measure enacted over the president's veto. The later one, the Individual Income Tax Act of 1944, because the House bill as revised by the Senate Finance Committee, encountered no opposition vote in either house.

This latest addition to the Internal Revenue Code is greeted with acclaim and unanimous approval of its stated purpose "to provide for simplification of the individual income tax." Its principal beneficiaries will be some thirty million taxpayers who will by its provisions avoid the necessity of computing their own tax, and some eight million taxpayers who will no longer have to file declarations of estimated tax. The Treasury Department will also reap largely of its

benefits in substituting the mechanical function of computing from a tax table for the tremendous task of processing annually these thirty-eight million returns.

To accomplish its simplification the Congress had to repeal the Victory tax, which, together with lowered exemptions, had been responsible for adding so many additional names to the tax rolls. The Victory tax, born of a legislative compromise, has now legally been adopted as a part of the orthodox rate structure. In its new clothes it becomes the normal tax, while its former brother, the 6 per cent normal tax, has come of age and been moved up as an addition to the surtax. The personal exemptions and credit for dependents have been modified in such a way as to permit, with the more facile rate structure, an extension of the optional tax table forms from incomes of $3,000, as heretofore, to incomes of $5,000.

This law is a step in the right direction, but one effect it will have is to whet the appetites of all taxpayers for a real comprehensive simplification of the Internal Revenue Code itself. Actually the new law adds more pages to the Code than it subtracts from it. It also adds to probably the largest family of cross references that ever bespattered any revenue code. Admittedly, with our complex economy of today a revenue law cannot be simple if it is to fall upon all taxpayers with justice and equity. But it can be understandable, which even the warmest adherents of our present code, if it has any, would admit it is not. An understandable law would not only ease the tasks of all taxpayers, but would also lighten the burdens and clear the calendars of our tax and federal courts which are now clogged with complicated tax litigation. Have we not reached the time when the Congress should give immediate consideration to those bills now resting in committee which would set up a nonpartisan body of experts to study our present code and reframe it along understandable lines?

The proposal of the American Institute of Accountants for such a study is receiving the active support of the American Bar Association and others.

New York Franchise Tax Amendments

A major operation was performed on the corporation franchise tax law at the 1944 session of the New York legislature. Among the purposes of the revision of the law were: the synchronizing of the base and privilege periods; the computation of capital and income allocated within the state on a more equitable basis in the case of corporations doing business both within and

without the state; and the revision of the methods of taxing investment income and holding companies.

We present in this issue of the L. R. B. & M. JOURNAL an article which discusses the more important revisions of the New York corporate franchise tax.

Notes

The following members of the L. R. B. & M. organization have joined the country's armed forces since the publication of the March, 1944, issue of the L. R. B. & M. JOURNAL:

Cincinnati:
Robert F. Reuter
James W. Schackmann

Dallas:
John W. McKellip

Detroit:
John R. Daly
Donald H. Kuhl

Los Angeles:
Charles R Hunt

New York:
Vernie L. Kane, Jr.
Arthur J. Bretnall
Stanley S. Sulzycki

Philadelphia:
Reber E. Horne
Robert E. Walley, Jr
Charles E. Wallis
Corning Pearson
William L. Williams
David S. Potts
John T. Walter

Rockford:
Robert Hedrick

Saint Louis:
Erwin C. Henke

On May 18, 1944, Mr. Harry H. Steinmeyer completed twenty-five years of association with L. R. B. & M., the last three years as a member of the firm. In recognition of the occasion, the firm had a vase of red roses placed on his desk on that day; also, he received greeting cards from members of the Philadelphia staff and office personnel. Every good wish for the next twenty-five years!

The semi-annual meeting of the Council of the American Institute of Accountants, which was held at the Waldorf-Astoria in New York on May 8 and 9, was attended by Colonel Montgomery as a member of Council; by Mr. Staub as Chairman of the Committee on Accounting Procedure; by Mr. Sweet as Chairman of the Committee on Cooperation with the Securities and Exchange Commission; and by Mr. Russell as President of the Michigan Association of Certified Public Accountants.

Mr. Sweet, as Chairman of the Institute's Committee on Cooperation with the Securities and Exchange Commission, attended the first meeting of the Joint Conference Group of Lawyers and Accountants which was held in Philadelphia on May 6. This Conference Group consists of members of the American Bar Associa-

tion and of the American Institute of Accountants, and has been constituted to work out effective cooperation between the two organizations.

At conferences of subcommittees of the Joint Contract Termination Board, held in Washington on April 19, Mr. Russell represented the Institute's Committee on Termination of War Contracts to discuss forms and accounting principles.

On June 1, Mr. Russell presided at a meeting arranged by the Michigan Association of Certified Public Accountants for an all-day discussion of War Contract Termination. The Detroit Control of the Controllers Institute and the Detroit Chapter of the NACA also participated in the meeting.

After having served two terms as President of the Rockford Chamber of Commerce, and participating in numerous civic undertakings and drives, Mr. John W. Conrad, Manager of our Rockford office, is serving as General Chairman of the Fifth War Loan Drive in Winnebago County (of which Rockford is the county seat), Illinois.

Mr. Staub was among the invited guests at the luncheon which the Commerce and Industry Association of New York gave to Mr. Rollin Browne, President of the New York State Tax Commission, on June 5, preceding a meeting at the Association's rooms which was addressed by Mr. Browne on the subject of the recent amendments of the New York Corporation Franchise Tax Law. An article describing these amendments appears elsewhere in this issue of the JOURNAL.

Since publication of the March issue of the L. R. B. & M. JOURNAL, members of the Tax Department of our Philadelphia staff have had speaking engagements as follows:

On March 8, Mr. Mark E. Richardson addressed a special luncheon meeting of the Philadelphia Chapter of the National Association of Accountants, giving an "Analysis of New Tax Law";

On March 17, Mr. James J. Mahon, Jr., addressed Stradley's Tax Luncheon at the Union League on "The Revenue Act of 1943", and on May 19 he addressed the same body on "Consolidated Income and Excess Profits Tax Returns."

Mr. John W. Conrad and Mr. J. Wesley Huss, Jr., of our Rockford office, discussed the subject of "Renegotiation of War Contracts" at the March meeting of the Rockford Chapter of the National Association of Cost Accountants.

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